

**TERAPLAST SA**

**CONSOLIDATED PRELIMINARY FINANCIAL STATEMENTS**

Prepared in accordance with  
**Minister of Public Finance Order**  
**no. 2844/2016** approving the accounting regulations compliant with  
the **International Financial Reporting Standards**,  
as of and for the year ended

**31 DECEMBER 2019**

**TERAPLAST SA**  
**Consolidated Financial Statements**  
Prepared in accordance with the  
International Financial Reporting Standards  
**31 December 2019**

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**TERAPLAST SA**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**31 December 2019**

(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Note	Financial year	
		31 December	31 December
		2019	2018
		RON	RON
Total Revenue from customer contracts, <i>out of which:</i>	4	<b>972,626,470</b>	<b>804,512,197</b>
<i>Revenue from sale of finished products</i>		835,541,229	674,625,885
<i>Revenue from the sale of merchandise</i>		124,513,076	126,426,583
<i>Revenue from services</i>		12,572,165	3,459,729
Other operating income	5	2,128,016	1,821,873
Changes in inventory of finished goods and work in progress		(3,128,570)	9,129,736
Works and services in progress		310,752	495,838
Raw materials, consumables used and merchandise	6	(698,091,725)	(605,376,072)
Employee benefit expenses	9	(86,044,529)	(68,406,348)
Amortization and the adjustments for impairment of non-current assets, net	8	(33,125,600)	(30,600,206)
Adjustments for the impairment of current assets, net		(737,168)	(1,540,803)
Expenses with provisions, net	8	(640,247)	(208,780)
Gains / (Losses) from the disposal/valuation of tangible and intangible assets	7	(124,645)	15,131
Gains / (Losses) from the disposal of assets held for sale	19	15,034	185,891
Gains / (Losses) from the disposal/fair value measurement of investment properties	7	71,940	(245,552)
Other operating expenses	10	(96,092,550)	(75,010,673)
<b>Operating result</b>		<b>57,167,178</b>	<b>34,722,232</b>
Financial expenses	5	(4,333,343)	(4,435,430)
Interest expense, net	5	(9,111,667)	(7,577,317)
Financial income	5	2,611,434	3,324,694
Income from dividends	5	88,742	75,200
<b>Financial result, net</b>	5	<b>(10,744,834)</b>	<b>(8,612,853)</b>
<b>Profit before tax</b>		<b>46,422,344</b>	<b>26,159,379</b>
Income tax expense	11	(4,605,027)	(3,520,673)
<b>Profit for the year</b>		<b>41,817,317</b>	<b>22,638,706</b>
<b>Profit or loss for the period</b>			
Attributable to			
Parent entity equity holders		40,686,956	21,878,022
Non-controlling interests	22	1,130,361	760,684
<b>Result for the financial year</b>		<b>41,817,317</b>	<b>22,638,706</b>
<b>Other comprehensive income</b>			
Revaluation of fixed assets	12	-	(700,722)
Deferred tax	11	-	136,968
		-	<b>(563,754)</b>
<b>Comprehensive income</b>		<b>41,817,317</b>	<b>22,074,952</b>
Attributable to			
Parent entity equity holders		40,686,956	21,314,268
Non-controlling interests		1,130,361	760,684
<b>Comprehensive income</b>		<b>41,817,317</b>	<b>22,074,952</b>

**Alexandru Stanean**  
CEO

**Ioana Birta**  
CFO

The accompanying notes from 1 to 34 are an integral part of these consolidated financial statements.  
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**TERAPLAST SA**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**31 December 2019**

(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Note	31 December 2019 RON	31 December 2018 RON
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	284,055,276	214,194,882
Investment property	14	7,118,770	8,324,389
Right of use of the leased assets		7,808,018	-
Intangible assets	13	45,323,210	71,013,891
Other long-term financial investments	16,18	771,747	745,868
Other financial investments		16,472	17,107
<b>Total non-current assets</b>		<b><u>345,093,493</u></b>	<b><u>294,296,137</u></b>
<b>Current assets</b>			
Inventories	17	181,573,224	194,414,744
Works and services in progress		806,590	495,838
Trade and similar receivables	18	138,978,174	127,460,704
Prepayments		1,066,286	895,914
Tax on profit to be recovered		439,534	-
Cash and short term deposits	30	29,223,431	22,817,571
<b>Total current assets</b>		<b><u>352,087,239</u></b>	<b><u>346,084,771</u></b>
Assets classified as held for sale	19	-	1,865,560
<b>Total assets</b>		<b><u>697,180,732</u></b>	<b><u>642,246,468</u></b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Total share capital, out of which:	19	<u>133,780,651</u>	<u>107,024,527</u>
Called-up capital	19	133,780,651	107,024,527
Other capital reserves	19	-	1,472,925
Share premium	19	27,384,726	27,384,726
Treasury shares		(139)	(1,472,925)
Revaluation reserves	19	17,698,554	17,698,554
Legal reserve	20	16,095,016	15,516,164
Retained earnings	21	81,612,672	68,526,436
<b>Capital attributable to controlling interests</b>		<b><u>276,571,480</u></b>	<b><u>236,150,407</u></b>
Non-controlling interests	22	2,258,654	1,965,458
<b>Total equity</b>		<b><u>278,830,134</u></b>	<b><u>238,115,865</u></b>
<b>Non-current liabilities</b>			
Loans and finance lease liabilities	23	65,972,452	71,598,023
Other non-current liabilities	15	9,517,200	49,022,037
Employee benefit liabilities	24	1,094,680	724,849
Deferred tax liabilities	11	8,582,327	8,855,594
Investment subsidies – long-term portion	32	15,329,362	3,597,809
<b>Total non-current liabilities</b>		<b><u>100,496,021</u></b>	<b><u>133,798,312</u></b>
<b>Current liabilities</b>			
Trade and other payables	25	157,358,398	145,252,622
Loans and finance lease liabilities	23	157,524,491	123,467,890
Income tax payable		-	377,800
Investment subsidies - current portion	32	1,920,804	453,766
Provisions	24	1,050,884	780,213
<b>Total current liabilities</b>		<b><u>317,854,577</u></b>	<b><u>270,332,291</u></b>
<b>Total liabilities</b>		<b><u>418,350,598</u></b>	<b><u>404,130,603</u></b>
<b>Total equity and liabilities</b>		<b><u>697,180,732</u></b>	<b><u>642,246,468</u></b>

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**TERAPLAST SA**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**for the financial year ended 31 December 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	Total share capital	Other capital reserves	Share premium	Revaluation reserves	Legal reserve	Treasury shares	Cumulated retained earnings	Capital attributable to controlling interests	Non-controlling interests	Total equity
	RON	RON	RON	RON	RON	RON	RON	RON	RON	RON
<b>Balance as at 1 January 2018</b>	<b>85,691,097</b>	-	<b>27,384,726</b>	<b>19,652,114</b>	<b>13,939,022</b>	<b>(663,396)</b>	<b>78,250,693</b>	<b>224,254,257</b>	<b>489,480</b>	<b>224,743,737</b>
Result for the year	-	-	-	-	-	-	21,878,022	21,878,022	760,684	<b>22,638,706</b>
Other comprehensive income	-	-	-	(563,754)	-	-	-	(563,754)	-	<b>(563,754)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(563,754)</b>	<b>-</b>	<b>-</b>	<b>21,728,022</b>	<b>21,314,268</b>	<b>760,684</b>	<b>22,074,952</b>
Share capital increase from reserves (Note 20)	21,333,483	-	-	-	-	-	(21,333,430)	-	-	-
Legal reserve setting (Note 21)	-	-	-	-	1,577,142	-	(1,577,142)	-	-	-
Own shares redemption (Note 20)	-	-	-	-	-	(809,529)	-	(809,529)	-	<b>(809,529)</b>
Employee benefits in the form of financial instruments (Note 33)	-	1,472,925	-	-	-	-	-	1,472,925	-	<b>1,472,925</b>
Consolidation adjustments related to the purchase of Wetterbest SA (Note 22)	-	-	-	-	-	-	-	-	1,615,926	<b>1,615,926</b>
Realized revaluation reserve (Note 12)	-	-	-	(1,389,807)	-	-	1,389,807	-	-	-
Dividends declared	-	-	-	-	-	-	(10,069,404)	(10,069,404)	(1,101,638)	<b>(11,171,042)</b>
Other equity items increases / (reductions) (Note 22)	(53)	-	-	-	-	-	(12,057)	(12,110)	201,005	<b>188,895</b>
<b>Balance as at 31 December 2018</b>	<b>107,024,527</b>	<b>1,472,925</b>	<b>27,384,726</b>	<b>17,698,554</b>	<b>15,516,164</b>	<b>(1,472,925)</b>	<b>68,526,436</b>	<b>236,150,407</b>	<b>1,965,458</b>	<b>238,115,865</b>

As of 31 December 2018 and 31 December 2019, the revaluation reserves include amounts representing the unrealized revaluation surplus related to tangible assets land and buildings.

**Alexandru Stanean**  
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**CFO**

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**TERAPLAST SA**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**for the financial year ended 31 December 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	Total share capital	Other capital reserves	Share premium	Revaluation reserves	Legal reserve	Treasury shares	Cumulated retained earnings	Capital attributable to controlling interests	Non-controlling interests	Total equity
	RON	RON	RON	RON	RON	RON	RON	RON	RON	RON
<b>Balance as at 1 January 2018</b>	<b>107,024,527</b>	<b>1,472,925</b>	<b>27,384,726</b>	<b>17,698,554</b>	<b>15,516,164</b>	<b>(1,472,925)</b>	<b>68,526,436</b>	<b>236,150,407</b>	<b>1,965,458</b>	<b>238,115,865</b>
Result for the year	-	-	-	-	-	-	40,686,956	40,686,956	1,130,361	41,817,317
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,686,956</b>	<b>40,686,956</b>	<b>1,130,361</b>	<b>41,817,317</b>
Share capital increase from reserves (Note 20)	26,756,123	-	-	-	-	-	(26,756,123)	-	-	-
Legal reserve setting (Note 21)	-	-	-	-	578,852	-	(578,852)	-	-	-
Own shares redemption (Note 20)	-	-	-	-	-	265,750	(265,750)	-	-	-
Employee benefits in the form of financial instruments (Note 33)	-	-	-	-	-	1,207,037	-	1,207,037	-	1,207,037
Consolidation adjustments related to the purchase of Wetterbest SA (Note 22)	-	-	-	-	-	-	-	-	-	-
Realized revaluation reserve (Note 12)	-	-	-	-	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	-	-	-	(837,166)	(837,166)
Other equity items increases / (reductions) (Note 22)	-	(1,472,925)	-	-	-	-	-	(1,472,925)	-	(1,472,925)
<b>Balance as at 31 December 2018</b>	<b>133,780,650</b>	<b>-</b>	<b>27,384,726</b>	<b>17,698,554</b>	<b>16,095,016</b>	<b>(139)</b>	<b>81,612,666</b>	<b>276,571,474</b>	<b>2,258,653</b>	<b>278,830,127</b>

As of 31 December 2018 and 31 December 2019, the revaluation reserves include amounts representing the unrealized revaluation surplus related to tangible assets land and buildings.

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**TERAPLAST SA**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	<b>Note</b>	<b>Year ended 31 December 2019 RON</b>	<b>Year ended 31 December 2018 RON</b>
<b>Cash flows from operating activities:</b>			
<b>Net profit before tax</b>		<b>46,422,352</b>	<b>26,159,379</b>
Losses / (Gains) from disposal of fixed assets		124,645	(15,131)
Impairment and amortization of non-current assets		33,125,600	30,600,206
Provisions for risks and charges, net		640,247	208,780
Allowance for doubtful debts		2,713,776	1,050,428
Inventory impairment		(1,976,608)	490,375
Income from dividends		(88,742)	(75,200)
Loss from the revaluation of investment property		133,370	245,552
Loss from the valuation of financial investments		-	494,662
Interest expense		9,111,667	7,577,317
<b>Operating profit before changes in working capital</b>		<b>90,206,307</b>	<b>66,766,628</b>
Increase in trade and other receivables		(15,716,493)	(20,431,207)
Decrease/ (Increase) in inventories		16,372,936	(52,395,275)
Increase in trade and other payables		(1,938,899)	25,428,887
Income tax paid		(6,020,336)	(3,151,254)
Interest paid, net		(9,111,667)	(7,577,317)
Income from subsidies		888,234	(753,969)
<b>Cash from operating activities</b>		<b>78,577,880</b>	<b>7,886,493</b>
<b>Cash flows used for investment:</b>			
Payments for acquisition of tangible and intangible assets, other long-term receivables		(98,579,413)	(32,059,265)
Receipts under State aid		12,310,357	-
Acquisition of investments – Wetterbest SA, net of purchased cash		(4,769,350)	(6,185,777)
Receipts from the sale of tangible assets		1,014,840	2,048,116
Own share redemption net of exercising the options		(139)	(809,529)
Losses related to SOP		(265,750)	-
<b>Net cash used for investment</b>		<b>(90,289,455)</b>	<b>(37,006,455)</b>
<b>Cash flows from financing activities:</b>			
Payment of finance lease liabilities		(1,206,100)	(1,051,141)
Dividends received		88,742	75,200
Dividends paid		(837,166)	(11,171,042)
Loans reimbursement		(22,993,561)	(15,955,580)
Loans drawings		32,709,424	12,870,465
Net drawings from credit lines		10,376,096	55,153,837
<b>Net cash from finance activities</b>		<b>18,137,435</b>	<b>39,921,730</b>
Net increase in cash and cash equivalents		6,405,860	10,801,769
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>30</b>	<b>22,817,571</b>	<b>12,015,802</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>30</b>	<b>29,223,431</b>	<b>22,817,571</b>

**Alexandru Stanean**  
CEO

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CFO

**TERAPLAST SA**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2019**

*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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## **1. GENERAL INFORMATION**

These are the consolidated preliminary financial statements of the Teraplast SA Group (the "Group").

These preliminary financial statements are not audited.

The preliminary consolidated financial statements for 2019 have been prepared in line with the accounting policies that will be used in preparing the Consolidated financial statements, which are consistent with those used in the 2018, except as described herein. The final, audited, consolidated statements will be published in March 2020.

TeraPlast Group is the largest Romanian construction materials manufacturer and comprises of seven companies with a wide range of products for the construction market. The Group offers complete solution for the following market segments: installation, window profiles, compounds, sandwich panels, galvanized steel purlins, turnkey halls, complete roof systems, windows&doors, rigid PVC recycling.

Teraplast SA (or the "Company") is a joint stock company established in 1992. The Company's head office is in the „Teraplast Industrial Park”, DN 15A (Reghin-Bistrita), km 45+500, Bistrita- Nasaud County, Romania.

Starting 2 July 2008, the Company Teraplast is listed at the Bucharest Stock Exchange under the symbol TRP.

Teraplast SA has been preparing consolidated financial statements since 2007. These financial statements are available on the Company website ([www.teraplast.ro](http://www.teraplast.ro)).

Group Teraplast includes Teraplast (manufacturer of pipes, compounds and PVC profiles) and its subsidiaries:

- Terasteel Romania and Terasteel Serbia (manufacturers of sandwich panels and coated metal structures),
- Wetterbest (manufacturer of metal tiles),
- Teraglass (manufacturer of PVC windows and doors),
- Teraplast Recycling (former Teraplast Logistic which, in June 2016 – September 2018, coordinated the logistic operations of the Group; as of October 2018, these operations were re-integrated with the parent) has been operating since April 2019 as a company specialised in recycling following the separation of the recycling line from Teraplast,
- Teraplast Hungary (distributor),
- Politub (at December 31, 2017, the business of Politub was transferred to Teraplast, becoming the Polyethylene Division)

The group, operates in five locations and eight factories: Sărățel (Bistrița-Năsăud), Bistrița (Bistrița Năsăud), Băicoi (Prahova), Podari (Dolj) and Leskovac (Serbia).

### **Key milestones**

In 2007, the Company became the majority shareholder of Terasteel SA (Terasteel). Terasteel main activity is the production of insulating panels with polyurethane foam for the construction of industrial buildings. Starting 31 December 2015, Teraplast SA owns 97.95% in Terasteel SA.

Starting October 2017, following an asset acquisition from a company undergoing liquidation, Terasteel Serbia produces and trades polyurethane foam and mineral wool sandwich panels in Serbia and on the neighboring markets.

In 2015, Teraplast SA transferred the activity of production and trading of PVC windows and doors Teraglass Bistrita SRL, its fully owned subsidiary.

In 2016, Teraplast SA, set up, as sole shareholder, Teraplast Hungary which distributes the Company products, mainly joinery profiles, on this market.

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**TERAPLAST SA**  
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**for the financial year ended 31 December 2019**

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## **2. GENERAL INFORMATION (continued)**

During 2017, the Group concluded agreements for the acquisition of 67% of Wetterbest SA, the second player on the metallic tile market, through the Wetterbest brand. TeraPlast gained control over Wetterbest SA in January 2018, after a favorable approval issued by the Competition Council. The company is consolidated as a subsidiary starting with 1 January 2018.

During 2019, the Group concluded agreements for the acquisition of the remaining 33% of Wetterbest. At the date of these financial statements, Wetterbest is a fully owned subsidiary.

Also, during 2019, Wetterbest entered into an agreement for the acquisition of the remaining 49% of the subsidiary Cortina WTB SRL, which was approved by the Competition Council in January 2020.

Until September 2017, the Company held 50% of the shares of Politub SA ("Politub"), controlling Politub jointly with the other shareholder, New Socotub. Politub SA's main activities include the production of pipes from average and high density polyethylene for water, gas transport and distribution networks, but also for telecommunications, sewerage systems or irrigations. Politub became in full part of the Teraplast portfolio starting October 2017. Starting December 2017, Politub transferred the business to Teraplast as a whole, and it became the Polyethylene Pipe Division of Teraplast.

In March 2019, the recycling activity of Teraplast SA was transferred to Teraplast Recycling (99% shareholding Teraplast SA, 1% shareholding Terasteel SA).

The results of 2018 and 2019 reflect the investments made as described above.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. SIGNIFICANT ACCOUNTING POLICIES**

#### **2.1. Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with the provisions of Order no. 2844/2016 approving the Accounting regulations compliant with the International Financial Reporting Standards applicable to trading companies whose securities are admitted to trading on a regulated market, as subsequently amended and clarified ("OMFP 28422/2016"). These provisions are compliant with the provisions of the International Financial Reporting Standards adopted by the European Union ("EU IFRS").

#### **2.2. Basis of accounting**

The financial statements have been prepared on a going concern basis, according to the historical cost convention, as modified below:

- adjusted to the effects of hyperinflation until 31 December 2003 for fixed assets, share capital and reserves,
- measurement at fair value of certain items of fixed assets and investment property, as presented in the Notes.

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise stated.

**TERAPLAST SA**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2019**

*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.3. Going concern**

These financial statements have been prepared under the going concern basis, which implies that the Company will continue its activity also in the foreseeable future. In order to assess the applicability of this assumption, management analyzes the forecasts concerning future cash inflows.

As of 31 December 2019, the Group current assets exceed the current liabilities by RON 34,232,662 (as of 31 December 2018: RON 75,191,194 ). In 2019, the Group recorded profit RON 41,817,317 (2017: RON 22,638,706). As detailed in Note 28, the Group gearing ratio is 42% (31 December 2017: 35%). The Group depends on bank financing, as also described in Note 23.

The budget prepared by the Group management and approved by the Board of Administration for 2020 indicates positive cash flows from operating activities, an increase in sales and profitability which contributes directly to improving liquidity and allows the Group to fulfill its contractual clauses with the financing banks. Group management believes that the support from banks is sufficient for the Group to continue its activity in the ordinary course of business, as a going concern.

Based on these analyses, management believes that the Company will be able to continue its activity in the foreseeable future and, consequently, the application of the going concern principle in the preparation of the financial statements is justified.

### **Basis for consolidation**

The financial statements comprise the financial statement of the Company and of its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

**TERAPLAST SA**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2019**

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

### **2.4. Standards, amendments and new interpretations of the standards**

#### **First time adoption of new or revised standards**

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2019.

The Group has initially adopted IFRS 16 Leases from January 1, 2019.

The Group has adopted IFRS 9 Financial Instruments, and IFRS 15 Revenue from Contracts with Customers (including the clarifications) for the first time starting with 1 January 2018.

### **2.5. Summary of accounting and valuation principles**

The accounting policies adopted are consistent with those of the previous financial year.

## **2. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

### **3.1. Judgments**

In the process of applying the Group accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

#### **Investment properties**

The Group holds assets which the management decided to reclassify as investment property, as follows:

- The Group owns 36 thousand sqm of land in Bistrita for appreciation, classified as investment property;
- As of 31 December 2018, the Group owned land and buildings (previously used as warehouses), in Constanta. The final destination of land and buildings would be as held for appreciation followed by subsequent sale. In July 2019, the property was sold, registering a net loss of RON 133 thousand.

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**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**Acquisition of Wetterbest SA shareholding**

As at 30 June 2017, Teraplast concluded the transaction for the acquisition of 50% of Wetterbest SA. Subsequently, in 2017, the Company signed agreements for the acquirement of an additional 17% shareholding in Wetterbest SA.

As at 31 December 2017, following the analysis performed by the Group management, Wetterbest SA was accounted for as an affiliate under the equity method, because the Group did not hold control over the company as of that date. In 2017, the Group did not have a voting majority in the company strategic decisions.

The transaction was finalized after its approval by the Teraplast SA General Shareholders Meeting and receiving the approval from the Romanian Competition Council. Therefore, TeraPlast took control of Wetterbest SA in January 2018, after obtaining the favorable approval of the Competition Council and registering the additional 17% investment with the Trade Register.

Also in 2017, Teraplast has concluded a sale-purchase promise with the minority shareholders of Wetterbest SA, for the rest of their investment up to 99% of the company. According to the contract terms, the transaction will be carried out within 4 years at most, for a price correlated with Wetterbest SA's results in the following years, but not less than a determined amount. As of 31 December 2017, this option was not reflected in the Company's balance sheet, because its exercising was also conditioned by the approval by the Competition Council for sole control.

After obtaining the sole control over Wetterbest SA, the Company recognized, under the "Long-term liabilities" position the fair value of the purchase price agreed with the promissory-sellers. Considering that the control over the decisions of Wetterbest SA is exercised by the Group, the sale-purchase transaction will be carried out for a minimum agreed price and the parties undertook to purchase and, respectively, sell the additional 32% package, the Group consolidates Wetterbest SA if it holds the major 99% package.

The fair value of Wetterbest SA at the date of purchase was of RON 70,556,559, determined following the preparation of a revaluation report by an external appraiser. The consideration for holding 99% was computed in relation to this fair value, resulting a goodwill of RON 35,230,839.

In 2019, further to the conclusion of the sale-purchase agreement for an additional 32% ownership, the value of the transaction was RON 24,269,035 lower than the value of the initial agreement.

In these preliminary financial statements, as of 31 December 2019, Teraplast SA accounted such reduction of its liability to the minority shareholders of Wetterbest, in correspondence with the reduction of the investment and a reduction of goodwill by such amount.

The impairment test of the investment will be reflected in the final financial statements.

**3. REVENUE AND OPERATING SEGMENTS**

An analysis of the Group revenues is detailed below:

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Sales from own production	847,469,033	684,720,115
Revenues from sale of commodities	124,513,076	126,426,583
Revenues from other activities	12,572,165	3,459,729
Commercial discounts awarded	<u>(11,927,804)</u>	<u>(10,094,230)</u>
<b>Total</b>	<b><u>972,626,470</u></b>	<b><u>804,512,197</u></b>

The accompanying notes from 1 to 34 are an integral part of these consolidated financial statements.  
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**4. REVENUE AND OPERATING SEGMENTS (continued)**

**Geographical analysis**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Sales on the internal market (Romania)	740,899,509	644,352,774
Sales on the external market	231,726,960	160,159,423
<b>Total</b>	<b>972,626,470</b>	<b>804,512,197</b>

The information on the operational policy as reported to the management from the perspective of resource allocation and segment performance analysis is classified according to the type of products delivered. The reporting segments of the Group have been determined according to:

- The nature of the products and services;
- The nature of the production processes;
- The type or category of clients for products and services;
- Methods used for distributing the products or providing the services.

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**4. REVENUES AND OPERATING SEGMENTS (continued)**

The reporting segments of the Group are aggregated according to the main types of activities and are presented below:

2018	Insulated panels and purlings	Metal tiles	Installations	Joinery profiles	Compounds	PVC windows and doors	Total
<b>Total revenue (*)</b>	<b>261,992,982</b>	<b>220,999,584</b>	<b>173,537,733</b>	<b>55,970,409</b>	<b>63,091,541</b>	<b>28,919,946</b>	<b>804,512,197</b>
Other operating income	827,620	330,306	287,096	293,442	73,602	9,809	1,821,874
Revenue from subsidiaries	445,858	304,734	-	-	-	-	750,592
<b>Operating income, total</b>	<b>262,820,602</b>	<b>221,329,890</b>	<b>173,824,829</b>	<b>56,263,851</b>	<b>63,165,143</b>	<b>28,929,755</b>	<b>806,334,071</b>
Raw materials, consumables used and merchandise	(206,045,308)	(169,487,851)	(123,390,712)	(34,141,646)	(48,130,720)	(14,554,262)	(595,750,498)
Employee benefits expenses	(11,716,002)	(17,295,948)	(23,067,877)	(6,475,778)	(3,942,754)	(5,907,989)	(68,406,348)
Amortization and adjustments for the impairment of assets and provisions	(5,124,663)	(6,543,390)	(12,171,889)	(4,754,750)	(1,512,569)	(746,257)	(30,853,518)
Adjustments for the impairment of current assets	(151,934)	(778,687)	(289,473)	(211,007)	-	(109,702)	(1,540,803)
Other expenses	(18,042,052)	(18,869,311)	(17,216,379)	(11,948,741)	(3,824,170)	(5,110,020)	(75,010,673)
<b>Total expenses related to sales, indirect and administrative expenses</b>	<b>(241,079,961)</b>	<b>(212,975,186)</b>	<b>(176,136,330)</b>	<b>(57,531,922)</b>	<b>(57,410,213)</b>	<b>(26,428,230)</b>	<b>(771,561,838)</b>
<b>Operating result</b>	<b>21,740,641</b>	<b>8,354,704</b>	<b>(2,311,500)</b>	<b>(1,268,071)</b>	<b>5,754,930</b>	<b>2,501,525</b>	<b>34,772,232</b>
<b>EBITDA</b>	<b>26,419,446</b>	<b>14,593,359</b>	<b>9,860,389</b>	<b>3,486,679</b>	<b>7,267,499</b>	<b>3,247,782</b>	<b>64,875,155</b>

EBITDA = operating result + amortization and the adjustments for the impairment of non-current assets and provisions – Revenue from subsidiaries

(\*) The amounts disclosed are net of the inter-segment transactions elimination

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**4. REVENUES AND OPERATING SEGMENTS (continued)**

2019	Insulated panels and purlings	Metal tiles	Installations	Joinery profiles	Compounds	PVC windows and doors	Total
<b>Total revenue (*)</b>	<b>308,798,619</b>	<b>269,856,527</b>	<b>239,801,610</b>	<b>61,094,111</b>	<b>64,200,791</b>	<b>28,874,813</b>	<b>972,626,470</b>
Other operating income	831,160	82,712	303,612	3,478	-	18,819	1,239,782
Revenue from subsidiaries	434,679	303,960	132,144	-	-	17,451	888,234
<b>Operating income, total</b>	<b>309,629,779</b>	<b>269,939,239</b>	<b>240,105,222</b>	<b>61,097,589</b>	<b>64,200,791</b>	<b>28,893,632</b>	<b>973,866,253</b>
Raw materials, consumables used and merchandise	(231,743,026)	(207,947,809)	(157,315,307)	(40,556,539)	(47,501,334)	(15,845,531)	<b>(700,909,546)</b>
Employee benefits expenses	(16,398,814)	(21,889,151)	(28,016,266)	(8,636,151)	(4,560,275)	(6,543,870)	<b>(86,044,527)</b>
Amortization and adjustments for the impairment of assets and provisions	(5,493,269)	(6,912,305)	(12,309,159)	(6,790,154)	(1,541,375)	(757,257)	<b>(33,803,519)</b>
Adjustments for the impairment of current assets	(843,969)	(696,812)	689,820	203,480	-	(89,687)	<b>(737,168)</b>
Sponsorship expenses	(690,814)	(116,818)	(115,555)	(56,484)	(53,896)	(39,087)	<b>(1,072,654)</b>
Other expenses	(23,062,710)	(24,296,562)	(30,222,900)	(7,945,653)	(4,504,008)	(4,988,063)	<b>(95,019,895)</b>
<b>Total expenses related to sales, indirect and administrative expenses</b>	<b>(277,797,923)</b>	<b>(261,555,496)</b>	<b>(227,157,223)</b>	<b>(63,781,500)</b>	<b>(58,160,889)</b>	<b>(28,246,044)</b>	<b>(916,699,075)</b>
<b>Operating result</b>	<b>31,831,857</b>	<b>8,383,742</b>	<b>12,947,999</b>	<b>(2,683,911)</b>	<b>6,039,902</b>	<b>647,589</b>	<b>57,167,178</b>
<b>EBITDA</b>	<b>37,581,260</b>	<b>15,108,905</b>	<b>25,240,569</b>	<b>4,162,727</b>	<b>7,635,174</b>	<b>1,426,481</b>	<b>91,155,116</b>

EBITDA = operating result + amortization and the adjustments for the impairment of non-current assets and provisions – Revenue from subsidiaries

(\*) The amounts disclosed are net of the inter-segment transactions elimination

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**5. SUNDRY INCOME**

**Financial income / costs**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Loss from foreign exchange differences, net	(1,780,210)	(626,834)
Other financial income	71,998	73,571
Interest revenues	487,328	935
Dividend revenues	88,742	75,200
Other financial expenses	(13,697)	(495,605)
Financial discounts granted	-	(61,868)
Interest expense	(9,598,995)	(7,578,252)
<b>Net financial loss</b>	<b>(10,744,834)</b>	<b>(8,612,853)</b>

**Other operating income**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Compensations, fines and penalties	633,239	364,854
Other income	606,543	706,427
Subsidies income	888,234	750,592
<b>Total</b>	<b>2,128,016</b>	<b>1,821,873</b>

**6. RAW MATERIALS, CONSUMABLES USED AND COMMODITIES**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Raw materials	565,011,158	462,124,546
Consumables	30,816,037	24,990,443
Merchandise	98,337,523	114,549,848
Packaging	3,927,007	3,711,235
<b>Total</b>	<b>698,091,725</b>	<b>605,376,072</b>



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**7. OTHER GAINS AND LOSSES**

	<b>Year ended 31 December 2019 RON</b>	<b>Year ended 31 December 2018 RON</b>
Revenues from the disposal of the tangible and intangible assets	1,014,840	2,048,116
Expenses with the disposal of tangible and intangible assets	(1,139,485)	(2,032,985)
Gain from revaluation of tangible assets	-	-
<b>Net loss from the disposal / revaluation of tangible and intangible assets</b>	<b>(124,645)</b>	<b>15,131</b>
Gain from the fair value measurement of investment properties	205,310	-
Loss on fair value measurement of investment properties	-	(245,552)
<b>Net gain / (loss) from valuation of investment properties at fair value</b>	<b>205,310</b>	<b>(245,552)</b>

**8. EXPENSES WITH PROVISIONS, IMPAIRMENT ADJUSTMENTS AND AMORTIZATION**

	<b>Year ended 31 December 2019 RON</b>	<b>Year ended 31 December 2018 RON</b>
Expenses with non-current assets impairment	(4,225,176)	(1,294,955)
Revenues from reversal of non-current assets impairment	747,415	434,199
Amortization and depreciation expenses	(29,647,839)	(29,739,450)
<b>Net adjustments for non-current assets impairment</b>	<b>(33,125,600)</b>	<b>(30,600,206)</b>
Inventory impairment expenses	(4,002,400)	(4,815,438)
Income from inventory impairment reversal	5,979,008	4,325,063
<b>Net adjustments for inventory impairment</b>	<b>1,976,608</b>	<b>(490,375)</b>
Expenses with allowance for doubtful debts	(3,937,822)	(3,493,008)
Income from impairment reversal	2,995,190	3,082,933
Receivables charged to expenses	(1,771,144)	(640,353)
<b>Net adjustments for doubtful debts</b>	<b>(2,713,776)</b>	<b>(1,050,428)</b>
Provisions	(947,892)	(512,009)
Revenues from provisions reversal / cancellation	307,645	303,229
<b>Net adjustments for provisions</b>	<b>(640,247)</b>	<b>(208,780)</b>

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**9. EMPLOYEE BENEFIT EXPENSES**

	Year ended 31 December 2019	Year ended 31 December 2018
	RON	RON
Wages	79,024,165	62,826,216
Contributions to the public social security fund	3,300,456	2,370,201
Meal tickets	3,719,908	3,209,931
<b>Total</b>	<b>86,044,529</b>	<b>68,406,348</b>

**10. OTHER EXPENSES**

	Year ended 31 December 2019	Year ended 31 December 2018
	RON	RON
Transport costs	40,038,317	29,453,184
Expenses with utilities and green certificates	13,176,977	9,436,746
Expenses with third party services	18,058,501	13,857,324
Expenses with compensations, fines and penalties	325,155	60,693
Entertainment, promotion and advertising expenses	6,451,614	5,155,895
Other general expenses	4,073,151	2,696,494
Expenses with other taxes and duties	2,466,800	2,107,177
Repair expenses	3,531,366	3,083,141
Travelling expenses	1,726,262	1,430,365
Rent expenses	2,184,590	3,824,486
Mail and telecommunication expenses	713,144	752,756
Insurance premium expenses	2,274,019	1,895,322
Sponsorship expenses	1,072,654	1,257,090
<b>Total</b>	<b>96,092,550</b>	<b>75,010,673</b>

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**12. PROPERTY, PLANT AND EQUIPMENT**

	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment and vehicles</u>	<u>Installations and furniture</u>	<u>Tangible assets in progress</u>	<u>Total</u>
	RON	RON	RON	RON	RON	RON
<b>COST</b>						
<b>Balance as at 1 January 2017</b>	<b>11,478,397</b>	<b>61,838,472</b>	<b>184,640,358</b>	<b>1,492,654</b>	<b>4,089,305</b>	<b>263,548,186</b>
Increases:	2,331,508	7,556,282	28,344,831	1,076,638	20,360,758	59,670,018
Out of which:						
Increases from the acquisition of Wetterbest SA Group	2,096,125	8,069,765	16,175,206	424,407	24,908	26,790,411
Increases from the internal production of non-current assets	-	-	-	-	1,437,450	1,437,450
Transfers in / from non-current assets in progress	-	1,751,837	9,419,807	127,407	(11,309,736)	(10,684)
Transfers from inventory items	-	-	49,884	-	-	49,884
Transfers to non-current assets held for sale	(1,137,491)	(826,853)	-	-	-	(1,964,344)
Transfers from investment property	599,425	622,201	-	-	-	1,221,626
Decrease from valuation prior to the classification as assets held for sale, with impact on reserves	(522,189)	(333,862)	-	-	-	(856,051)
Increases / (decreases) from value adjustments with impact on reserves	-	155,328	-	-	-	155,328
Disposals and other decreases	-	(2,555,084)	(14,684,417)	(210,367)	-	(17,449,869)
<b>Balance as at 31 December 2018</b>	<b>13,832,218</b>	<b>98,040,028</b>	<b>242,216,342</b>	<b>2,677,936</b>	<b>14,393,983</b>	<b>371,160,508</b>
<b>Balance as at 1 January 2019</b>	<b>13,832,218</b>	<b>98,040,028</b>	<b>242,216,342</b>	<b>2,677,936</b>	<b>14,393,983</b>	<b>371,160,508</b>
Increases:	319,885	979,213	13,806,196	209,565	81,559,016	96,873,875
Out of which:						
Increases from the internal production of non-current assets	-	-	-	-	1,578,283	1,578,283
Transfers in / from non-current assets in progress	-	24,199,335	60,198,925	394,668	(84,458,596)	334,332
Transfers from inventory items	-	-	-	-	-	-
Transfers to non-current assets held for sale	-	-	-	-	-	-
Transfers from investment property	-	-	-	-	-	-
Decrease from valuation prior to the classification as assets held for sale, with impact on reserves	-	-	-	-	-	-
Increases / (decreases) from value adjustments with impact on reserves	-	-	-	-	-	-
Disposals and other decreases	(24,539)	(60,362)	(2,678,205))	(18,317)	(455,217)	(3,236,640)
<b>Balance as at 31 December 2019</b>	<b>14,127,564</b>	<b>123,158,214</b>	<b>313,543,258</b>	<b>3,263,853</b>	<b>12,617,468</b>	<b>466,710,356</b>

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**12. PROPERTY, PLANT AND EQUIPMENT (continued)**

	Land RON	Buildings RON	Plant and equipment RON	Installations and furniture RON	Tangible assets in progress RON	Total RON
<b>ACCUMULATED DEPRECIATION</b>						
<b>Balance as at 1 January 2018</b>	<b>346</b>	<b>4,550,778</b>	<b>137,800,175</b>	<b>1,112,499</b>	<b>964,893</b>	<b>144,428,691</b>
Depreciation recorded during the year	346	4,495,501	22,256,684	310,261	-	27,062,791
Disposals and decreases	23,615	(1,515,779)	(13,760,561)	(160,156)	-	(15,436,495)
Impairment	-	(153,253)	474,412	-	539,597	860,756
Transfers from inventory items	-	-	49,884	-	-	49,884
<b>Balance as at 31 December 2018</b>	<b>692</b>	<b>7,377,247</b>	<b>146,820,594</b>	<b>1,262,604</b>	<b>1,504,490</b>	<b>156,965,627</b>
<b>Balance as at 1 January 2019</b>	<b>692</b>	<b>7,377,247</b>	<b>146,820,594</b>	<b>1,262,604</b>	<b>1,504,490</b>	<b>156,965,627</b>
Depreciation recorded during the year	346	4,611,782	22,275,581	378,623	-	27,266,332
Disposals and decreases	23,615	-	(2,117,390)	(11,410)	-	(2,105,185)
Impairment	-	(31,997)	760,816	-	(200,512)	528,307
Transfers from inventory items	-	-	-	-	-	-
<b>Balance as at 31 December 2019</b>	<b>24,652</b>	<b>11,957,032</b>	<b>167,739,601</b>	<b>1,629,817</b>	<b>1,303,978</b>	<b>182,655,080</b>
<b>NET CARRYING AMOUNT</b>						
<b>Net carrying amount as at 1 January 2019</b>	<b>13,831,527</b>	<b>90,662,782</b>	<b>95,395,748</b>	<b>1,415,333</b>	<b>12,889,494</b>	<b>214,194,881</b>
<b>Net carrying amount as at 31 December 2019</b>	<b>14,102,912</b>	<b>111,201,182</b>	<b>145,803,656</b>	<b>1,634,035</b>	<b>11,313,491</b>	<b>284,055,276</b>

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**12. PROPERTY, PLANT AND EQUIPMENT (continued)**

The tangible assets purchased through leases include vehicles and equipment, as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Net value – vehicles	3,512,866	1,891,654
Net value – equipment	252,281	436,995
<b>Total</b>	<b><u>3,765,148</u></b>	<b><u>2,328,649</u></b>

The impairment adjustments are related to assets not used. As at 31 December 2019, the Group recorded impairment adjustments for tangible assets in an amount RON 3,410,349 (2018: RON 2,312,454).

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**13. INTANGIBLE ASSETS**

	<b>Goodwill</b>	<b>Licenses and other intangible assets</b>	<b>Intangible assets in progress</b>	<b>Total</b>
<b>Cost</b>				
<b>Balance as at 1 January 2018</b>	-	<b>6,786,169</b>	<b>3,097</b>	<b>6,789,266</b>
Increases, out of which:	35,230,839	36,585,892	724,056	<b>72,541,010</b>
Wetterbest SA acquisition, out of which:	35,230,839	36,083,307	-	<b>71,314,146</b>
- Goodwill	35,230,839	-	-	<b>35,230,839</b>
- Wetterbest brand	-	27,351,076	-	<b>27,351,076</b>
- Commercial relations	-	7,427,844	-	<b>7,427,844</b>
Transfers into / from tangible assets in progress	-	333,163	(322,479)	<b>10,684</b>
Disposals and other decreases	-	(216,139)	-	<b>(216,139)</b>
<b>Balance as at 31 December 2018</b>	<b>35,230,839</b>	<b>43,489,085</b>	<b>404,897</b>	<b>79,124,821</b>
<b>Balance as at 1 January 2019</b>	<b>35,230,839</b>	<b>43,489,085</b>	<b>404,897</b>	<b>79,124,821</b>
Increases	-	440,793	1,267,975	<b>1,708,768</b>
Transfers into / from tangible assets in progress	-	1,172,891	(1,507,223)	<b>(334,332)</b>
Disposals and other decreases	(24,269,035)	-	-	<b>(24,269,035)</b>
<b>Balance as at 31 December 2019</b>	<b>10,961,804</b>	<b>45,102,769</b>	<b>165,649</b>	<b>56,230,222</b>
<b>Cumulated amortization</b>				
<b>Balance as at 1 January 2018</b>	-	<b>5,126,916</b>	-	<b>5,126,916</b>
Amortization expense	-	2,695,736	-	<b>2,695,736</b>
Wetterbest SA acquisition	-	503,772	-	<b>503,772</b>
Impairment	-	56	-	<b>56</b>
Decreases	-	(215,606)	-	<b>(215,606)</b>
<b>Balance as at 31 December 2018</b>	-	<b>8,110,874</b>	-	<b>8,110,874</b>
<b>Balance as at 1 January 2019</b>	-	<b>8,110,874</b>	-	<b>8,110,874</b>
Amortization expense	-	2,539,789	-	<b>2,539,789</b>
Wetterbest SA acquisition	-	-	-	<b>-</b>
Impairment	-	256,347	-	<b>256,347</b>
Decreases	-	-	-	<b>-</b>
<b>Balance as at 31 December 2019</b>	-	<b>10,907,011</b>	-	<b>10,907,011</b>
<b>Net carrying amount</b>				
<b>As at 31 December 2018</b>	<b>35,230,839</b>	<b>35,378,211</b>	<b>404,897</b>	<b>71,013,891</b>
<b>As at 31 December 2019</b>	<b>10,961,804</b>	<b>34,195,758</b>	<b>165,649</b>	<b>45,323,211</b>

At the date of purchasing the majority package of Wetterbest SA company, according to the valuation report issued by an external appraiser, in the fair value of the Wetterbest SA unit, the Wetterbest brand and the client relationships have also been recognized (for further details, see Note 15).

In the consolidated financial statements as of 31 December 2018, the intangible assets recognized as a result of purchasing Wetterbest SA are included in other intangible assets.

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**14. INVESTMENT PROPERTIES**

As of 31 December 2019, Investment properties include 36 thousand sqm of land in Bistrita.  
363636 thousand sqm

	<b>Year ended 31 December 2019 RON</b>	<b>Year ended 31 December 2018 RON</b>
<b>Opening balance at 1 January</b>	<b>8,324,389</b>	<b>9,791,568</b>
Disposals	(1,410,929)	(1,221,627)
Net variation from valuation of investment properties at fair value (Note 7)	205,310	(245,552)
<b>Closing balance at 31 December</b>	<b>7,118,770</b>	<b>8,324,389</b>

In June 2018, the space in Oradea which, as of December 2017, was included in the "Investment property" balance sheet item was reclassified under "Tangible assets" as a result of the fact that the Company decided to recommence the operating activity in this location. As a result, the "Investment property" balance sheet item registered a decrease of approximately RON 1,200 thousand.

In July 2019, the investment property in Constanta was sold, generating a reduction of the Group's investment property by RON 1,411 thousand.

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**15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS**

As at 31 December 2019 and 31 December 2018, the parent holds the following investments:

<b>Subsidiary</b>	<b>Place of set-up and of operations</b>	<b>Main activity</b>	<b>Holding percentage 31 December 2019 (%)</b>	<b>Holding percentage 31 December 2018 (%)</b>
Terasteel SA Bistrita	Romania	Heat insulating panel production	97.95	97.95
Teraglass Bistrita SA	Romania	Heat insulating joinery production	100	100
Politub SA	Romania	Polyethylene pipes production	99.99	99.99
Teraplast Recycling SRL	Romania	PVC recycler	99	99
Teraplast Hungaria	Hungary	Distributor	100	100
Terasteel DOO Serbia	Serbia	Heat insulating panel production	100	100
Wetterbest SA	Romania	Metal tile production	99	99
Cortina WTB SRL	Romania	Metal tile production	51	51

*Other long-term financial investments*

Details concerning other financial investments of Teraplast SA are the following:

<b>Investment name</b>	<b>Country</b>	<b>Investment share %</b>	<b>31 December 2019 RON</b>	<b>Investment share %</b>	<b>31 December 2018 RON</b>
CERTIND SA	Romania	7.50	14,400	7.5	14,400
Partnership for sustainable development	Romania	7.14	1,000	7.14	1,000
Tera Tools SRL	Romania	24	72	24	72
The Association of Metal Panels Producers	Romania	11.11	1,000	11.11	1,000
		-	<b>16,472</b>	-	<b>16,472</b>

The CERTIND Company is an independent certification body accredited by the Greek Accreditation Body – ESYD for the following certification services: certification of quality management systems according to ISO 9001, certification of environment management systems according to ISO 14001, certification of food safety management systems according to ISO 22000.

Teraplast SA did not undertake any obligations and did not make any payment on behalf of the entities in which it holds securities in the form of investments.

The other Group companies do not have any financial investments.



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**17. INVENTORIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Finished goods	41,392,276	49,352,661
Raw materials	117,168,078	125,931,763
Commodities	13,626,150	13,436,897
Consumables	3,886,442	3,577,615
Inventory items	312,482	260,198
Semi-finished goods	8,251,520	3,908,861
Residual products	470,187	909,669
Goods to be purchased	822,400	3,732,496
Packaging	2,048,296	1,684,609
<b>Inventories – gross value</b>	<b>187,977,831</b>	<b>202,794,769</b>
	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Value adjustments for raw materials and consumables	(2,600,884)	(2,968,793)
Value adjustments for finished products	(2,751,569)	(4,463,451)
Value adjustments for merchandise	(1,052,154)	(947,781)
<b>Total value adjustments</b>	<b>(6,404,607)</b>	<b>(8,380,025)</b>
<b>Total inventories – net value</b>	<b>181,573,224</b>	<b>194,414,744</b>

The value adjustments are made for all categories of inventory (see above), using both general methods and specific methods according to their age and analyses on the chances to use them in the future. The categories of inventories with the age of one year or above which did not have any movements in the past year are depreciated in full.

The Group's inventories are pledged in favor of financing banks.

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**18. TRADE AND OTHER RECEIVABLES**

<b>Short-term receivables</b>	<b>31 December</b>	<b>31 December</b>
	<b>2019</b>	<b>2018</b>
	<b>RON</b>	<b>RON</b>
Trade receivables	145,893,840	133,856,312
Advances paid to suppliers of assets	4,482,479	6,404,825
Advances paid to suppliers of inventories and services	4,398,439	1,528,978
Other receivables	10,242,277	10,766,819
Adjustments for trade receivables impairment	(26,038,861)	(25,096,230)
<b>Total</b>	<b><u>138,978,174</u></b>	<b><u>127,460,704</u></b>

Other receivables include the amount of RON 8,496,794 (2017: RON 8,773,733) representing VAT receivable (Teraglass Bistrita SRL, Terasteel Doo Serbia, Teraplast Recycling SRL, Wetterbest SA, Politub SA).

**The changes in adjustment for impairment on doubtful receivables**

	<b>31 December</b>	<b>31 December</b>
	<b>2019</b>	<b>2018</b>
	<b>RON</b>	<b>RON</b>
<b>Balance at the beginning of the year</b>	<b><u>(25,096,230)</u></b>	<b><u>(21,939,056)</u></b>
Receivables transferred to expenses during the year	1,771,144	640,353
Impairment adjustment charged to profit and loss for trade receivables	(2,713,775)	(1,050,491)
Purchase of shareholder control	-	(2,747,037)
<b>Balance at the end of year</b>	<b><u>(26,038,861)</u></b>	<b><u>(25,096,230)</u></b>

When determining the recoverability of a receivable, the Group takes into consideration any change in the crediting quality of the concerned receivable starting with the credit granting date until the reporting date. The concentration of the credit risk is limited taking into consideration that the client base is large, but they are not related to each other. As a result, the Group management is of the view that no adjustment for impairment for credits is needed in addition to the adjustment for doubtful receivables.

The Group's receivables are pledged in full in favor of the financing banks.

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**19. ASSETS HELD FOR SALE**

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Opening balance as of 1 January</b>	<b>1,865,560</b>	<b>653,215</b>
Inputs through transfers from tangible non-current assets	-	1,865,560
Outputs through sale	1,865,560	653,215
<b>Closing balance as of 31 December</b>	<b>-</b>	<b>1,865,560</b>

In 2017, the Company reclassified the assets held in Galati (land and buildings) with a net book value of RON 653,215 from tangible assets into assets held for sale and were measured at the reclassification date at the lowest between the net book value and the fair value minus the costs generated by the sale. These assets were sold in 2018, generating a profit of RON 185,891.

In 2018, the Company reclassified the assets held in Otopeni (land and buildings) to assets held for sale; they were valued at the date of reclassification at the lower of net book value and fair value less costs to sell, namely RON 1,865,560. These assets were sold in January 2019, generating a profit of RON 15,034.

**20. SHARE CAPITAL**

	<b>31 December 2019 RON</b>	<b>31 December 2018 RON</b>
Common shares paid in full	133,780,650	107,024,527
<b>Total</b>	<b>133,780,650</b>	<b>107,024,527</b>

As at 31 December 2019, the value of the share capital called-up and paid up of the Company included 1,337,806,508 (2018: 1,070,245,274) authorized shares, issued and paid in full, at a value RON 0.1 and having a total nominal value of RON 1,337,806,508 (2018: RON 107,024,527). Common shares bear a vote each and give the right to dividends.

On September 18, 2019, the Financial Supervisory Authority issued Certificate no. AC-3420-8/18.09.2019 for registration of securities, corresponding to the increase of share capital approved by Resolution no. 1 of the Extraordinary General Meeting of Shareholders of Teraplast SA dated April 25, 2019, by the amount of RON 26,756,123.40, through the issuance of 267,561,234 new shares, at a nominal value of RON 0.1 /share.

On 12 December 2018, the Financial Supervisory Authority has issued the Security Registration Certificate no. AC-3420-7/12.12.2018 related to the share capital increase approved through the decision of the Shareholders' General Extraordinary Meeting of Teraplast SA no. 1 from 27 April 2018, with the amount of RON 21,333,483, through the issuance of 213,334,304 new shares, having a nominal value of RON 0.1 / share.

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**20. SHARE CAPITAL (continued)**

*Treasury shares*

	<u>Number of shares</u>	<u>RON</u>
<b>As of 31 December 2018</b>	<b>3,571,450</b>	<b>1,472,925</b>
Repurchase of own shares, net of exercising the options	(3,571,450)	(1,207,036)
Losses related to the sale of own shares	-	(265,750)
<b>As of 31 December 2019</b>	<b>336</b>	<b>139</b>

The decrease of treasury shares in equity equals the cost incurred to purchase the shares.

On September 27, 2019, the Central Depository registered in the Shareholders' Registry of Teraplast SA the transfer of shares to its own employees, as laid down in the program begun in September 2018.

Further to the transfers, the Company registered losses on the sale of own shares bought back in amount of RON 266 thousand, a non-deductible expense when calculating income tax.

**21. LEGAL RESERVES**

	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>RON</u>	<u>RON</u>
Opening balance	15,516,164	13,939,022
Increases in the period	578,852	1,577,142
<b>Total</b>	<b>16,095,016</b>	<b>15,516,164</b>

The legal reserve is used for transferring the profits to retained earnings. According to the Romanian legislation, a transfer from the net profit of the Group is needed. The transfer may account up to 5% of the profit before tax, until the reserve becomes 20% of the share capital.

The reserve cannot be distributed to the shareholders, but it may be used in order to absorb operating losses, and, in this case, it becomes taxable starting the date when it was set. The management does not intend to use the legal reserve in order to cover accounting losses carried forward.

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**22. NON-CONTROLLING INTERESTS**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
<b>Balance at the beginning of the year</b>	<b>1,965,458</b>	<b>489,480</b>
Result for the year	1,130,361	760,684
Dividends	(837,166)	(1,101,638)
Acquirement of non-controlling interests	-	1,615,926
Other items	-	201,005
<b>Balance at the end of year</b>	<b>2,258,653</b>	<b>1,965,458</b>

As of 31 December 2018 and 31 December 2019, non-controlling interests consist of 2.05% holdings in Terasteel SA, 1% in Wetterbest SA and 49% in Cortina WTB SRL.

**23. LOANS**

	<b>Short-term</b>		<b>Long-term</b>	
	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Transilvania Bank	73,074,586	71,161,905	61,477,051	67,757,841
Raiffeisen Bank	28,076,297	32,606,025	-	-
Exim Bank	41,605,958	-	-	-
UniCredit Bank	1,383,090	12,957,716	1,453,122	2,703,823
BCR Bank	5,294,969	-	-	-
Citi Bank	-	5,724,129	-	-
ING Bank	-	343,496	-	-
Leases	764,061	674,619	2,253,019	1,136,359
<b>Total</b>	<b>150,198,961</b>	<b>123,467,890</b>	<b>65,183,192</b>	<b>71,598,023</b>

With the adoption of IFRS 16, the Group recorded as of 31 December 2019, Right of use Asset of 7,808,018 and corresponding liability of 7,946,169 lei. The correspondent liability from IFRS 16 is not included in the table above.

The classification of loans according to the currencies is as follows:

<b>Currency</b>	<b>2019</b>	<b>2018</b>
EUR	21,543,331	14,985,632
RON	193,838,822	180,080,281
<b>Total</b>	<b>215,382,153</b>	<b>195,065,913</b>

The distribution of bank loans per companies is as follows:

	<b>Short-term</b>		<b>Long-term</b>	
	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Teraplast SA	81,721,328	58,948,895	57,682,317	67,218,258
Terasteel SA	8,939,856	27,537,494	-	-
Teraglass Bistrita SRL	11,282,796	2,678,585	3,794,734	539,583
Wetterbest SA	37,849,339	24,171,789	1,323,281	2,504,454
Terasteel Doo Serbia	9,572,054	9,366,195	-	-
Cortina WTB SRL	69,527	90,313	129,841	199,369
<b>Total</b>	<b>149,434,900</b>	<b>122,793,271</b>	<b>62,930,173</b>	<b>70,461,664</b>

The accompanying notes from 1 to 34 are an integral part of these consolidated financial statements.  
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**23. LOANS (continued)**

Bank loans as of 31 December 2018 and 31 December 2019 are the following:

**Teraplast SA**

<b>Financing bank</b>	<b>Financing type</b>	<b>Date granted</b>	<b>Balance as of 31 December 2018</b>	<b>Balance as of 31 December 2019</b>	<b>Short-term as of 31 December 2019</b>	<b>Long-term as of 31 December 2019</b>	<b>Period</b>
Transilvania Bank	Working capital	07.06.2017	28,059,730	37,075,977	37,075,977	-	12 MONTHS
Transilvania Bank	Investments	20.04.2017	15,035,639	12,266,144	2,725,810	9,540,334	84 MONTHS
Transilvania Bank	Investments	07.06.2017	28,200,000	23,500,000	4,700,000	18,800,000	84 MONTHS
Transilvania Bank	Investments	19.07.2017	14,411,254	11,747,950	2,610,656	9,137,295	84 MONTHS
Transilvania Bank	Investments	24.07.2017	3,824,857	2,723,529	1,089,412	1,634,118	60 MONTHS
Transilvania Bank	Investments	31.07.2017	8,345,754	5,942,682	2,377,073	3,565,609	60 MONTHS
Transilvania Bank	Investments	07.11.2017	7,820,000	4,500,000	1,500,000	3,000,000	60 MONTHS
Transilvania Bank	Investments	04.04.2018	6,230,303	5,172,953	1,034,591	4,138,362	72 MONTHS
Raiffeisen Bank	Working capital	01.07.2017	14,239,615	18,504,243	18,504,243	6,871,016	12 MONTHS
Transilvania Bank	Investments	07.03.2019	-	8,834,164	1,963,148	995,583	60 MONTHS
Transilvania Bank	Investments	05.12.2019	-	1,194,700	199,117	-	60 MONTHS
Transilvania Bank	Investments	18.03.2019	-	7,941,303	7,941,303	-	12 MONTHS
<b>TOTAL</b>			<b>126,167,153</b>	<b>139,403,645</b>	<b>81,721,328</b>	<b>57,682,317</b>	

**Terasteel SA**

<b>Financing bank</b>	<b>Financing type</b>	<b>Date granted</b>	<b>Balance as of 31 December 2018</b>	<b>Balance as of 31 December 2019</b>	<b>Short-term as of 31 December 2019</b>	<b>Long-term as of 31 December 2019</b>	<b>Period</b>
Transilvania Bank	Working capital	08.07.2018	18,002,763	8,939,856	8,939,856	-	12 MONTHS
Transilvania Bank	Investments	30.11.2017	534,516	-	-	-	12 MONTHS
Raiffeisen Bank	Working capital	31.05.2018	9,000,215	-	-	-	12 MONTHS
<b>TOTAL</b>			<b>27,537,494</b>	<b>8,939,856</b>	<b>8,939,856</b>	<b>-</b>	

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**23. LOANS (continued)**

**Teraglass Bistrita SRL**

<u>Financing bank</u>	<u>Financing type</u>	<u>Date granted</u>	<u>Balance as of 31 December 2018</u>	<u>Balance as of 31 December 2019</u>	<u>Short-term as of 31 December 2019</u>	<u>Long-term as of 31 December 2019</u>	<u>Period</u>
Transilvania Bank	Working capital	07.12.2017	2,493,585	-	-	-	12 MONTHS
Transilvania Bank	Investments	07.12.2017	724,583	539,583	185,000	354,583	60 MONTHS
Transilvania Bank	Investments	08.03.2019	-	4,172,796	732,645	3,440,151	60 MONTHS
Transilvania Bank	Working capital	14.05.2019	-	3,001,262	3,001,262	-	12 MONTHS
Transilvania Bank	Investments	08.03.2019	-	7,363,889	7,363,889	-	24 MONTHS
<b>TOTAL</b>			<b>3,218,169</b>	<b>15,077,530</b>	<b>11,282,796</b>	<b>3,794,734</b>	

**Wetterbest SA**

<u>Financing bank</u>	<u>Financing type</u>	<u>Date granted</u>	<u>Balance as of 31 December 2018</u>	<u>Balance as of 31 December 2019</u>	<u>Short-term as of 31 December 2019</u>	<u>Long-term as of 31 December 2019</u>	<u>Period</u>
UniCredit Bank	Investments	-	28,317	-	-	-	48 MONTHS
UniCredit Bank	Investments	26.05.2017	1,230,674	520,947	519,559	1,388	30 MONTHS
UniCredit Bank	Investments	20.04.2016	580,994	284,402	244,555	39,846	60 MONTHS
UniCredit Bank	Investments	26.05.2015	42,655	-	-	-	48 MONTHS
UniCredit Bank	Investments	28.02.2018	1,796,821	1,831,495	549,449	1,282,047	48 MONTHS
UniCredit Bank	Investments	-	-	-	-	-	48 MONTHS
UniCredit Bank	Working capital	09.02.2012	3,497,925	-	-	-	12 MONTHS
UniCredit Bank	Working capital	17.01.2017	3,969,081	-	-	-	24 MONTHS
UniCredit Bank	Working capital	25.02.2011	4,261,625	-	-	-	12 MONTHS
Transilvania Bank	Working capital	14.12.2016	23,216	-	-	-	23 MONTHS
Transilvania Bank	Working capital	20.02.2018	5,213,545	-	-	-	12 MONTHS
CITI Bank	Working capital	29.05.2018	5,724,129	-	-	-	12 MONTHS
ING Bank	Investments	07.04.2016	343,496	-	-	-	41 MONTHS
BCR Bank	Working capital	29.08.2019	-	5,294,969	5,294,969	-	12 MONTHS
Exim Bank	Working capital	14.05.2019	-	31,240,807	31,240,807	-	12 MONTHS
<b>TOTAL</b>			<b>26,676,243</b>	<b>39,172,620</b>	<b>37,849,339</b>	<b>1,323,281</b>	

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**23. LOANS (continued)**

**Terasteel d.o.o Serbia**

<u>Financing bank</u>	<u>Financing type</u>	<u>Date granted</u>	<u>On balance as of 31 December 2018</u>	<u>On balance as of 31 December 2019</u>	<u>Short-term as of 31 December 2019</u>	<u>Long-term as of 31 December 2019</u>	<u>Period</u>
Raiffeisen Bank Serbia	Working capital	10.04.2018	9,323,726	9,572,054	9,572,054	-	12 MONTHS
<b>TOTAL</b>			<b>9,323,726</b>	<b>9,572,054</b>	<b>9,572,054</b>	<b>-</b>	

**Cortina WTB SRL**

<u>Financing bank</u>	<u>Financing type</u>	<u>Date granted</u>	<u>On balance as of 31 December 2018</u>	<u>On balance as of 31 December 2019</u>	<u>Short-term as of 31 December 2019</u>	<u>Long-term as of 31 December 2019</u>	<u>Period</u>
UniCredit Bank	Investments	01.06.2015	53,973	-	-	-	60 MONTHS
UniCredit Bank	Investments	01.06.2016	52,751	16,411	16,411	-	60 MONTHS
UniCredit Bank	Investments	28.02.2018	182,958	182,958	53,117	129,841	60 MONTHS
<b>TOTAL</b>			<b>289,682</b>	<b>199,368</b>	<b>69,527</b>	<b>129,841</b>	

The financial covenants agreed with the main financing bank, Banca Transilvania, were met as of 31 December 2019.

The Group's inventories, receivables and cash are pledged in favour of financing banks, as well as part of the Group's non current assets.



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**24. EMPLOYEE BENEFIT LIABILITIES AND PROVISIONS**

The Group has established a benefit plan according to which the employees are entitled to receive retirement benefits according to the seniority within the Group when they turn the retirement age of 65 for men and of 61 for women.

The provision represents the present value of the retirement benefit as calculated on an actuarial basis.

	<b>Short-term</b>		<b>Long-term</b>	
	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Employee benefits	-	-	1,094,680	724,849
Provisions for risks and charges	1,050,884	780,213	-	-
<b>Total</b>	<b>1,050,884</b>	<b>780,213</b>	<b>1,094,680</b>	<b>724,849</b>

The latest actuarial valuations were performed on 31 December 2019 by Mr. Silviu Matei, a member of the Romanian Actuarial Institute. The present value of the defined benefit obligations and the current and past costs of related services have been measured using the projected unit credit method.

During the financial year 2019, Teraplast SA set provisions amounting to RON 369,831 (2018: RON 404,011) related to the rights for employee compensation, based on the actuarial computation, for the amounts granted to the employees for retirement, amounts provided to be granted according to the collective labor contract.

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Long Term Employee benefits</b>		
Opening balance	724,849	320,838
Movements	369,831	404,011
<b>Closing balance</b>	<b>1,094,680</b>	<b>724,849</b>

	<b>31 December 2019</b>	<b>Net movements</b>	<b>31 December 2018</b>
<b>Other Provisions</b>			
<b>Closing balance</b>	<b>1,050,884</b>	<b>270,671</b>	<b>780,213</b>

Teraplast SA has set provisions for sundry expenses related to environmental protection and tax liabilities, being probable that certain obligations generated by prior events of the entity would determine an outflow of resources.

The reversed provision for litigations related to a possible litigation related to a tumular necropolis in Galati. In 2018, this provision was reversed as the spaces held in Galati were sold.

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**25. TRADE AND OTHER PAYABLES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Trade payables	117,436,025	125,833,102
Trade notes payable	1,027,752	818,625
Liabilities from the purchase of non-current assets	1,779,442	2,270,474
Other current payables (Note 26)	27,592,866	9,075,734
Advance payments from clients	9,522,313	7,254,687
<b>Total</b>	<b><u>157,358,398</u></b>	<b><u>142,252,622</u></b>

**26. OTHER CURRENT LIABILITIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Salary-related payables to employees and social security payables	8,463,161	6,877,775
VAT payable	7,193,477	1,210,565
Unclaimed employee rights	93,138	91,531
Sundry creditors	10,126,357	12,556
Deferred income	-	8,928
Commercial guarantees received	386,027	114,859
Other taxes payable	948,011	524,373
Dividends payable	382,695	235,147
<b>Total</b>	<b><u>27,592,866</u></b>	<b><u>9,075,734</u></b>

Of the total of RON 10.12 million in line "Sundry creditors", RON 9.51 million represents the short-term liability in relation to the minority shareholders of Wetterbest SA according to the SPA concluded in April 2019 for the acquisition of additional 32% ownership in Wetterbest.

**27. FINANCIAL LEASE OBLIGATIONS**

**Lease contracts**

Finance leases relate to motor vehicles and equipment on lease periods of 5 - 6 years. The Group has the option of purchasing equipment for a nominal amount at the end of the contractual periods. The Group's obligations related to financial lease are guaranteed with the lessee's property right over the assets.

**Finance lease liabilities**

The fair value of finance lease liabilities is approximately equal to their carrying amount.

	<b>Minimum lease payments</b>		<b>Discounted value of the minimum lease payments</b>	
	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>
<b>Present value of minimum lease payments</b>				
Amounts payable in one year	902,046	741,431	674,501	674,619
More than one year but less than five years	2,459,192	1,403,743	1,136,477	1,303,679
Above 5 years	5,150	-	-	-
<b>Total lease liabilities</b>	<b><u>3,366,388</u></b>	<b><u>2,145,174</u></b>	<b><u>1,810,978</u></b>	<b><u>1,978,298</u></b>
Minus future financial expenses	(360,788)	(166,876)	-	-
<b>The current value of financial lease liabilities</b>	<b><u>3,005,600</u></b>	<b><u>1,978,298</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

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## 28. FINANCIAL INSTRUMENTS

The risk management activity within the Group is performed in relation to financial risks (credit risk, market risk, geographic risk, foreign currency risk, interest rate risk and liquidity risk), operating risks and legal risks. The main objectives of the financial risk management activity are to determine the risk limits and then to ensure that the exposure to risks is maintained between these limits. The management of operating and legal risks is aimed at guaranteeing the good functioning of the internal policies and procedures for minimizing operating and legal risks.

### (a) Capital risks management

The Group manages its capital to ensure that the entities within the Group will be able to continue their activity and, at the same time, maximize revenues for the shareholders, by optimizing the balance of liabilities and equity.

The structure of the Group capital consists in debts, which include the loans detailed in Note 23, the cash and cash equivalents and the equity attributable to equity holders of the parent Group. Equity includes the share capital, reserves and retained earnings.

Managing the Group's risks also includes a regular analysis of the capital structure. As part of the same analysis, management considers the cost of capital and the risks associated to each class of capital. Based on the management recommendations, the Group may balance its general capital structure through the payment of dividends, by issuing new shares and repurchasing shares, as well as by contracting new liabilities and settling the existing ones.

Just as other industry representatives, the Group monitors the capital based on the gearing ratio. This ratio is calculated as net debt divided by total capital. The net debt is represented by the total loans (including long-term and short-term loans as detailed on the balance sheet) less the cash and cash equivalents. Total capital represents "equity", as detailed on the consolidated balance sheet plus the net debt.

The gearing ratio as at 31 December 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
	RON	RON
Total loans (Note 23)	223,496,943	195,065,913
Less cash and cash equivalents	(29,223,431)	(22,817,571)
<b>Net debt</b>	<b><u>194,273,512</u></b>	<b><u>172,248,340</u></b>
<b>Total equity</b>	<b><u>278,830,134</u></b>	<b><u>238,115,865</u></b>
<b>Total equity and net debt</b>	<b><u>473,103,646</u></b>	<b><u>410,364,205</u></b>
<b>Gearing ratio</b>	<b><u>41%</u></b>	<b><u>42%</u></b>

### (b) Summary of significant accounting policies

The details on the main accounting policies and methods adopted, including the recognition criteria, measurement basis and revenue and expenses recognition basis, concerning each class of financial assets, financial liabilities and capital instruments are presented in Note 2 to the financial statements.

## **28. FINANCIAL INSTRUMENTS (continued)**

### **(c) Objectives of the financial risk management**

The cash function of the Group provides services needed for the activity, coordinates the access to the national financial market, monitors and manages the financial risks related to the Group operations by way of reports on the internal risks, which analyze the exposure to and extent of the risks. These risks include the market risk (including the foreign currency risk, fair value interest rate risk and the price risk), credit risk, liquidity risk and cash flow interest rate risk.

### **(d) Market risk**

The Group activities expose it first to the financial risks related to the fluctuation of the exchange rates (see (d) below) and of the interest rate (see [f] below).

The Group management continuously monitors its exposure to risks. However, the use of this approach does not protect the Group from the occurrence of potential losses beyond the foreseeable limits in case of significant fluctuations on the market. There was no change from the prior year in relation to the Group exposure to the market risks or to how the Group manages and measures its risks.

### **(e) Foreign currency risk management**

The Group performs transactions expressed in different currencies. Hence, there is the risk of fluctuations in the exchange rate. The exposures to the exchange rate are managed according to the approved policies.

The Group obtains revenues in EUR based on the contracts signed with foreign clients (as detailed in Note 4).

### **(f) Interest rate risk management**

The interest-bearing assets of the Group, the revenues, and the cash flows from operating activities are exposed to the fluctuations of market interest rates. The Group's interest rate risk relates to its bank loans. The loans with variable interest rate expose the Group to the cash flow interest rate risk. The Group performed no hedging operation with a view to reducing its exposure to the interest rate risk.

The Group continuously monitors its exposure to the interest rate risk. These include simulating various scenarios, including the refinancing, discounting current positions, financing alternatives. Based on these scenarios, the Group estimates the potential impact of determined fluctuations in the interest rate on the profit and loss account. For each simulation, the same interest rate fluctuation is used for all models. These scenarios are only prepared for the debts representing the main interest-bearing positions.

The Group is exposed to the interest rate risk taking into account that the Group entities borrow funds both at fixed, and at floating interest rates. The risk is managed by the Group by maintaining a favorable balance between fixed rate and floating rate interest loans.

### **(g) Other price risks**

The Group is not exposed to the equity price risks arising from equity investments. The financial investments are held for strategic purposes rather than commercial ones and are not significant. The Group does not actively trade these investments.

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**28. FINANCIAL INSTRUMENTS (continued)**

**(h) Credit risk management**

The credit risk relates to the risk that a counterparty will not meet its obligations causing financial losses to the Group. The Group has adopted a policy of performing transactions only with trustworthy parties and of obtaining sufficient guarantees, if applicable, as a means of decreasing the financial losses caused by breaches of contracts. The Group exposure and the credit ratings of third parties to contracts are monitored by the management.

Trade receivables consist in a high number of clients from different industries and geographical areas. The permanent credit assessment is performed in relation to the clients' financial condition and, when appropriate, a credit insurance is concluded.

The cash is held in financial institutions which, at the date when it is deposited, are considered to have the lowest reimbursement risk. The Group has policies limiting the value of the exposure for any financial institution.

The carrying amount of receivables, net of the provision for receivables, plus the cash and cash equivalents, are the maximum amount exposed to the credit risk. Although the receivable collection could be influenced by economic factors, the management considers there is no significant loss risk for the Group, beyond the provisions already recorded.

The Group considers the exposure to the credit risk in relation to a counterparty or a group of similar counterparties by analyzing the receivables individually and making impairment adjustments together with the client credit management department.

**(i) Liquidity risk management**

The ultimate responsibility for liquidity risk management lies with the Board of Directors, which have developed an appropriate liquidity risk management framework in terms of ensuring funding for the Group on the short, medium and long-term and managing liquidities. The Group manages the liquidity risks by maintaining appropriate reserves, bank facilities and reserve loan facilities, by continuously monitoring actual cash flows and by correlating the maturity profiles of financial assets and liabilities. Note 23 includes a list of additional facilities not drawn by the Company, which the Group has in order to further reduce the liquidity risk.

**(j) Fair value of financial instruments**

The financial instruments disclosed on the statement of financial position include trade and other receivables, cash and cash equivalents, short and long-term loans and other debts. The carrying amounts represent the maximum exposure of the Group to the credit risk related to the existing receivables.

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**29. RELATED PARTY TRANSACTIONS**

The related and affiliated entities of the Company are as follows:

**December 31, 2019**

**Subsidiaries**

Teraglass Bistrita SRL  
Terasteel SA  
Politub SA  
Teraplast Recycling SA  
Teraplast Hungaria Kft  
Wetterbest SA  
Terasteel Doo Serbia  
Cortina WTB SRL

**Related parties (common shareholding/decision-makers)**

ACI Cluj SA Romania  
AGROLEGUMICOLA DRAGU SRL Romania  
Ditovis Impex SRL Romania  
Eurohold AD Bulgaria  
FERMA POMICOLA DRAGU SRL Romania  
Hermes SA Romania  
INFO SPORT SRL  
ISCHIA ACTIVHOLDING SRL  
ISCHIA INVEST SRL  
LA CASA RISTORANTE PIZZERIA PANE DOLCE SRL  
Magis Investment SRL  
Mundus Services AD Bulgaria  
NEW CROCO PIZZERIE SRL  
Parc SA  
PARCSERV SRL  
RSL Capital Advisors SRL  
Sphera Franchise Group SA  
Dedal As s.r.l.  
Rematinvest s.r.l.  
Remat Salaj s.a.  
Remat s.a. Satu Mare  
Remat Alba s.a.  
Recomet s.r.l.  
Paziv s.r.l.  
Anda Imobiliare s.r.l.  
Colina Construct s.r.l.

The transactions between the parent and its subsidiaries, Group affiliates were eliminated from the consolidation.

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### 30. CASH AND CASH EQUIVALENTS

For cash flow statement purposes, the cash and cash equivalents include cash on hand and bank accounts. Cash and cash equivalents at financial year end, as disclosed on the cash flow statement, may be reconciled with the items related to the accounting balance sheet, as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Cash in bank	26,459,065	22,284,803
Bills receivable	192,795	235,668
Cash on hand	246,976	192,728
Cash equivalents	2,324,595	104,372
<b>Total</b>	<b>29,223,431</b>	<b>22,817,571</b>

The Group's available cash is pledged in full in favor of financing banks.

### 31. COMMITMENTS AND CONTINGENT LIABILITIES

#### Teraplast SA

The Company signed a contract with Banca Transilvania for multi-currency bank letter of guarantee with multiple use, extended for 24 months from August 8, 2019. The value of the ceiling is RON 1,750,000, letters of credit amounting to RON 100.000 are issued.

At December 31, 2019, tangible assets and investment property with a net book value of RON 77,420,197 (December 31, 2018: 56,463,119 RON) are collateral for loans and credit lines. For banks loans, the Company has guaranteed with all the present and future money available, with all the present and future commodity stocks and goods and has assigned the present and future debt rights, as well as the related accessories coming from the present and future contracts with its customers which are assigned debtors. Also, the Company assigned the rights resulting from the insurance policies issued for real estate and movable goods brought as guarantee.

The Company has ongoing finance leases for which the capital rate is included in the short or long term debt, as applicable.

In 2017, the Company granted to Banca Transilvania a guarantee for joint liability with Terasteel SA for the repayment of loans in amount of RON 31,168,950 (December 31, 2018: RON 47,846,249), which Terasteel has contracted from Banca Transilvania

At December 31, 2019, the Company has unused credit facilities of RON 17,190,916 (December 31, 2018: RON 18,794,869 ).

The company signed in November 2018 a financing agreement for an investment project of RON 28,987 thousand, under the State aid scheme for stimulating investments with major impact on the economy, 50% of the value of the project being financed by State aid. The project of Teraplast SA aims to offer a new product in the field of compounds and the equipment of a line that will allow to expand the production capacity of polypropylene systems.

On March 7, 2019, the Company contracted a loan amounting to RON 14,493,278 from Banca Transilvania in order to support the investments it undertook within the State aid scheme to stimulate investments with major impact on the economy, for which Teraplast SA has received the financing agreement in November 2018.

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**31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

Until the date of these financial statements, the Company has submitted three requests for reimbursement (in June, August and September 2019) and received, until December 31, 2019, the amount of RON 5.42 million.

In 2018, Teraplast SA and EON Energie Romania signed an agreement worth EUR 1.9 million. Based on such partnership, E.ON will mount solar energy systems on the roofs of 13 production halls and buildings of TeraPlast, which will allow the company to generate its own electricity from renewable sources. The agreement provides the possibility to extend the project next year up to a value of EUR 4 million.

**Terasteel SA**

At December 31, 2019, the Company registers unused credit facilities, amounting to RON 23,560,144 (December 31, 2018: RON 5,497,027).

The Group's long-term loans and short-term loans are guaranteed with the current and future cash availability deposited in the current accounts opened with the banks which granted the loans, with assignments of inventories and commercial contracts and real estate mortgages.

At December 31, 2019, the Company registers a ceiling of letters of credit of EUR 1,500,000 which expires on 07.08.2020. Within this ceiling, at December 31, 2019, letters of credit amounting to EUR 439,750 are issued.

In 2017, the Company granted to Banca Transilvania a guarantee for joint liability with Teraplast SA for repayment of loans in amount of RON 103,630,305 (December 31, 2018: RON 150,763,303), which Teraplast SA has contracted from Banca Transilvania.

At December 31, 2019, the Company registers a ceiling of letters of guarantee of RON 1,500,000 which expires on 07.08.2020, letters of credit amounting to RON 295,207 are issued.

**Teraglass Bistrita SRL**

At December 31, 2019, the Company registers unused credit facilities amounting to RON 1,998,738 (December 31, 2018: RON 506,415).

In November 2018, the Company signed a financing agreement for an investment project of RON 16.057 thousand, under the State aid scheme to stimulate investments with major impact on the economy, 50% of the value of the project being financed through State aid. The project of Teraglass Bistrita SRL aims to create a new flow, fully automated, for the production of PVC windows and doors, a process that will contribute both to the increase of the production capacity and the productivity of work, as well as to meeting the growing demand.

On 08.03.2019, the Company contracted a loan amounting to RON 8,028,744 from Banca de Export Import a Romaniei EximBank, in order to support the investments it undertook within the State aid scheme to stimulate investments with major impact on the economy, for which Teraglass Bistrita SA received the financing agreement in November 2018.

On December 31, 2019, the Company submitted a request for reimbursement amounting to RON 6.63 million, unpaid until the date of these financial statements.

**Wetterbest SA**

At December 31, 2019, the Company has unused credit facilities amounting to RON 23,889,000 and EUR 5,000,000 (31 December 2018: RON 8,107,433 and EUR 608,105).

At December 31, 2019, tangible assets with a net book value of RON 8,226,068 (December 31, 2018: RON 16,163,194) are collateral for loans and credit lines.

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**31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

The Company signed, in November 2018, a financing agreement for an investment project of RON 18.266 thousand, under the State aid scheme for stimulating investments with major impact on the economy, 50% of the value of the project being financed from state aid. The project of Wetterbest SA aims to open a new manufacturing unit in Băicoi (Prahova), which, at a production capacity of over 10 million square meters of tile, will ensure optimal flows of logistics and storage.

At December 31, 2019, the Company has received a reimbursement in amount of RON 2.05 million, in relation to the State aid scheme.

On 12.03.2019, Wetterbest contracted a loan worth EUR 5 million from the European Bank for Reconstruction and Development, in order to support the investments it has committed under the State aid scheme to stimulate investments with major impact on the economy, for which Wetterbest SA was granted the financing in November 2018.

Up to the date of these financial statements, the Company did not draw any amounts from the loan from EBRD.

At December 31, 2019, Cortina WTB SRL registers unused credit facilities, in amount of RON 1,500,000 (31 December 2018: RON 1,500,000).

**Potential tax liabilities**

In Romania, there are several agencies authorized to perform controls (audits). These controls are similar in nature to the tax inspections performed by the tax authorities in many countries, but they may cover not only tax matters, but also legal and regulatory matters, the concerned agency may be interested in. The Group companies are likely to be occasionally subject to such controls for breaches or alleged breaches of the new and existing laws and regulations. Although the Group may challenge the alleged breaches and related penalties when the management considers they are entitled to take such action, the adoption or implementation of laws and regulations in Romania could have a significant impact on the Group. The Romanian tax system is under continuous development, being subject to constant interpretations and changes, sometimes retrospectively applied. The statute of limitation for tax periods is 5 years.

The Group administrators are of the view that the tax liabilities of the Group have been calculated and recorded according to the legal provisions.

**Environmental matters**

The main activity of the group companies have inherent effects on the environment. The environmental effects of the companies' activities are monitored by the local authorities and by the management. The group companies permanently aim at complying with the environmental obligations. As a result, no provisions were set for any kind of potential obligations currently unquantifiable in relation to environmental matters or actions for their remedial.

**Transfer pricing**

The Romanian fiscal legislation includes the "arm's length" principle, according to which inter-company transactions should be performed at market value. Local taxpayers that perform inter-company transactions should prepare and submit the transfer pricing file with the Romanian tax authorities, upon written request of the latter. Failure to submit the transfer pricing documentation file or submission of an incomplete file may lead to penalties for non-compliance; in addition to the contents of the transfer pricing documentation file, the tax authorities may interpret the transactions and circumstances in a manner different than that of the company and, as a result, they may determine additional fiscal obligations resulting from transfer pricing adjustments. The Group management considers they will not record losses in the case of a fiscal review of transfer pricing. However, the impact of a different interpretation from the tax authorities cannot be reliably measured. It could be significant for the Group's financial position and / or operations.

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### 32. INVESTMENT SUBSIDIES

Investment subsidies refer to non-refundable funds related to investments made by **Terasteel SA, Wetterbest SA, TeraPlast SA and TeraGlass SRL** for production equipment and PPE. There are no unfulfilled conditions or other contingencies related to such subsidies.

	<u>2019</u>	<u>2018</u>
<b>As at 1 January</b>	<b>4,051,575</b>	<b>2,928,557</b>
Wetterbest SA acquisition	-	1,873,607
Subsidies additions	14,086,828	-
Transferred to profit and loss	(888,234)	(750,592)
<b>As at 31 December</b>	<b><u>17,250,166</u></b>	<b><u>4,051,575</u></b>
Current	1,920,804	453,766
Long-term	15,329,362	3,597,809

As of 31 December 2019, the total value of the subsidies recorded was of RON 17,250,166 (2018: RON 4,051,575) recognized as deferred income in the balance sheet and transferred to profit and loss on a systematic and reasonable basis, during the life of the related assets.

### 33. SHARE-BASED PAYMENT

As of 31 December 2018, the Group had RON 1,480,308 worth of treasury shares for a stock compensation plan.

In December 2017, Terasteel registered a provision amounting to RON 920,000.

In December 2018, Teraplast registered RON 552,925 representing benefits granted to the employees in the form of own shares in Teraplast SA, which will be settled at a subsequent date.

In September 2019, the shares were settled with an income of RON 169,770 booked in the profit and loss account, representing the difference between the value of the shares at the purchase price and the value of the shares at settling date amounting.

### 34. SUBSEQUENT EVENTS

#### Changes in participations in subsidiaries

In January 2020, the Group has concluded a sale-purchase agreement for the remaining 1% minority interest for the counter value of RON 955,960.

In September 2019, the Group has concluded a sale-purchase agreement with the minority shareholder of Cortina WTB SRL, for the remaining participation of 49%. The transaction was concluded for the count value of RON 2,397,223 and was approved by the Competition Council in January 2020. Thus, at the date of the present financial statements, Cortina WTB SRL was consolidated considering 49% minority interest.

#### Commitments

In February 2020, Wetterbest SA has drawn EUR 4 million out of the EUR 5 million investment loan from EBRD.

**Alexandru Stanean**  
CEO

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**Ioana Birta**  
CFO

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**Declaration of the Management**

We confirm to the best of our knowledge that the preliminary and unaudited financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group as required by the applicable accounting standards and that the Preliminary Consolidated Financial Statements of the TeraPlast Group give a true and fair view of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that the Group faces.

February 17, 2020  
The Executive Board

**Alexandru Stanean**  
CEO

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**Ioana Birta**  
CFO

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